



House Tax Policy Committee  
Senate Finance Committee  
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Presented by Mary Dechow  
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Good afternoon. It's a pleasure to be here today on behalf of our employer, Spartan Stores, Inc. For those who are not familiar with Spartan Stores, we are a grocery retailer and wholesaler. Our main buying and distribution facility is located on over 100 acres of property in Byron Township, just about 10 miles south of our meeting location today.

Spartan owns and operates 75 supermarkets – 55 in Michigan and 19 in Ohio. You'll recognize our stores as Family Fare Supermarkets in West Michigan and Glen's Markets in Northern Michigan. We also own and operate the Pharm stores in Ohio and Adrian, Michigan – a chain pharmacy that also sells a variety of groceries.

A couple dozen independent grocery store owners founded Spartan Stores in Grand Rapids 87 years ago. Our business has grown and transformed since that time. But as much as things have changed, they have also remained the same. Independent operators make up the vast majority of supermarkets in smaller communities around the United States. In Michigan, Spartan Stores continues to supply groceries, general merchandise, meat, produce and pharmacy products to over 300 supermarkets – single store operators and multi-store chains. You know the names in this area as Forest Hills Foods, Big Top Markets, Plumb's Supermarkets, Harding's Markets, Parkside Foods, Felpausch, Fulton Heights Foods, Gordy's, Middleville Marketplace, Village Market, Leppink's, Jorgensen's and, of course, the Family Fare supermarkets which we own and operate.

The grocery business is a penny margin business. Don't expect a 20-30% margin if you plan to start a grocery store. The only way to make a go in this business is buy right and sell on volume.

In 1999, Spartan Stores ventured into retail store ownership. It was promoted primarily by the fact that many of our customers wanted to sell their business. We had a choice: Buy the stores and operate them ourselves or risk losing them to the competition. We chose the former.

In January 1999, we purchased Ashcraft's Markets in Central Michigan, followed by Family Fare and Great Day Supermarkets – both Grand Rapids area chains – and Glen's Markets in northern Michigan that same year. In 2000, we merged with Seaway Food Town out of Ohio and subsequently became publicly traded on the NASDAQ. In 2001, we purchased Prevo's Markets, a chain based out of Traverse City, which also owned and operated three stores in the greater Grand Rapids area.

The past few years have been challenging. Like all retailers, we have faced additional competition in our markets. In Ohio, large chains opened many new stores just across the street from our stores. In the Michigan market – and in some Ohio areas – more mega stores opened, taking an additional bite out of our market share. The new competition not only affects the stores we own, but each of the 300 plus independents we supply. As prices and profits get driven down, independents often close.

While our total sales have remained around \$2 billion annually, profits have dropped. In fiscal 2003, our losses hit \$122 million.

As a result, we were forced to make some tough decisions:

We have closed over two dozen under-performing stores and trimmed 3,000 jobs from retail and wholesale;

We sold off some non – core businesses;

We rededicated ourselves to our customers – the consumers who shop our stores and the hundreds of independent retailers that we supply.

Under the management of our President and Chief Executive Officer, Craig Sturken, and a new executive team, we have turned the company around and will this year report a profit.

It hasn't been easy or painless. It's a difficult decision to cut jobs or close stores, but those are decisions that we had to make because we have an obligation to our shareholders and our associates to keep this company viable and healthy. The people who have invested their money and their lives in Spartan deserve the assurance that we will do everything we can, as management, to protect their assets and protect their jobs.

That leads to the reason why we agreed to be here today and why I personally testified at a previous hearing in Lansing.

Before I get into details of the Single Business Tax impact, I'd like to share a few other facts about our company.

Spartan Stores employs over 6,100 people in Michigan. An estimated 2,000 of those get their paychecks out of our corporate office and distribution center in Grand Rapids and our distribution center in Plymouth. These folks are truck drivers, warehouse selectors, buyers, accountants, and marketers. Due to industry consolidations & closures, we are the only remaining retail – wholesale operation like this in Michigan – the other major, independent buying and distribution offices have left the state.

In many of the communities where we operate, we are the premiere employer. This is especially true in Glen's country -- some of the northern communities.

In addition to good wages, we provide health benefit and retirement options for our employees.

In fact, last year we spent in excess of \$31 million on health care and retirement benefits for our associates.

Our total payroll, over \$150 million, is money that is re-circulated within communities across this state.

Our personal property taxes are \$1.2 million annually, and last year we paid \$4.5 million in real property tax on 89 parcels.

The \$25 to \$30 million we spend annually on capital investments provide more jobs in communities – jobs involving building stores, remodeling stores, upgrading equipment, and modernizing technology.

The point is, our presence is important to Michigan. It's important to you and to the communities that you represent.

Our turn around success is important to every Spartan shopper in Michigan. It's important to our shareholders and it certainly is very important to our associates.

I asked Eric Tuori, our Tax Manager, to join me today to explain the impact on the SBT proposal on our company. Eric is a CPA. He is very familiar with Michigan and Ohio tax structure, having first-hand experience with both.

#### TURN OVER TO ERIC

The Single Business Tax proposal before you is focused on helping to expand manufacturing in Michigan. Specifically, it is designed to

- Encourage businesses to invest and create jobs in Michigan
- Foster small business growth
- Attract technology jobs
- Provide broad based tax relief
- And maintain fiscal integrity.

Although this proposed legislation might help the manufacturing sector, it has a negative impact on Spartan stores and most of the independent grocers we serve.

Spartan operates primarily in two states, Ohio and Michigan, so we know first hand some of the things that drive up our cost of doing business in Michigan.

Our single business tax liability has been consistent at over \$2 million annually – even in those years when we lost money.

Our initial review of the Single Business Tax proposal indicates that we will see a tax increase of \$1.8 million, nearly double of our current liability. This would result in an after tax effect to our bottom line of \$1.2 million which is approximately 7% of our reported year-to-date profits for this past fiscal year.

The areas of this proposal having the greatest impact to us are 1) the triple profit component that does not offer relief in years in which profits are below zero, 2) loss of excess compensation reduction and the gross receipts reduction, which allows some relief to taxpayers like us that are in a heavy labor intensive industry. Also an issue with us is that retailers will receive no benefit

from the proposed 35% personal property tax credit even though as mentioned before we do pay more than \$1.2M annually in personal property taxes.

Two weeks ago we had an opportunity to meet with Treasurer Rising and two senior staff members. After discussing our concerns with them, they suggested that we might look at how filing a combined return might minimize the impact. We currently file on a separate company basis. Since that meeting, we have calculated our liability for those entities that would be allowed to file under the combined method and determined that this would lessen the impact of the SBT increase. However, it would be an increase of approximately 40%. Still, a significant impact on a low margin business. This of course is under the assumption that Treasury would grant us permission to file a combined return.

Regardless of how our liability is calculated, this proposal will result in a tax increase to our Company. Unfortunately in a low margin business the additional costs generated from this tax will have to be offset in some manner.

We also looked at the impact on many of the independent stores we service. We have first hand knowledge of their operations because in many instances we perform bookkeeping and tax services for these small business owners. Similar increases in tax costs will impact these small business owners for many of the same reasons cited earlier. We have identified grocers who will see single digit increases and some who could experience SBT liability increases as high as 300%.

As explained earlier, all grocers are being impacted by increasing competition. This includes the rapid expansion of Wal Mart in many of our Michigan market areas, often aided by local tax breaks. Grocers can ill afford yet another headwind such as a Single Business tax increase. The impact this proposal has on grocers is the reason that Michigan Grocers Association has come out strong against the plan. While providing tax breaks to many in the manufacturing sector, it does so at the expense of other business sectors and especially jeopardizes the small, independently owned and operated grocery businesses.

On behalf of every one of our 6,100 employees and their families, we thank you for your careful consideration of this proposal and encourage you to do all you can to help each and every job provider in this state. Michigan does not need a tax policy that picks winners and losers. It needs a tax policy that will attract new business to the State and encourages economic growth for all businesses. We look forward to the opportunity to work with you and with Treasury on solutions.

Thank you.